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SUBJECT: MADRID ECONOMIC WEEKLY, APRIL 27-30

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Economy Contracted Sharply in First Quarter

1.(U) Spain's economy contracted by 1.8% between the fourth quarter of 2008 and the first quarter of 2009, according to Bank of Spain estimates. This was the worst quarterly decline in 50 years, and it brought GDP to a level 2.9% below that of the first quarter of 2008. These are preliminary estimates, but the official figures that will be released by the National Statistics Institute in a few weeks are expected to show a similar contraction. (Europa Press, 4/29)

EU Foreign Ministers Approve Deficit Sanctioning Procedure

2.(U) On April 27, EU Foreign Ministers formally approved the Commission's proposal to open a sanctioning procedure against Spain (and France, Greece and Ireland) for surpassing budget deficit limits. The Ministers have given the GOS until 2012 to reduce its deficit below 3% of GDP. Spanish authorities now have six months to inform Brussels about the steps they will take to reduce the deficit. Separately, the EC reportedly predicts that Spain's deficit this year will reach 8.6% of GDP, well above the most recent GOS prediction of 5.9%. (EFE, 4/28; El Pais, 4/30)

GOS Presses for G-20 Membership with Treasury Secretary Geithner, Others

3.(U) Spain's aspirations to join the G-20 made headlines again this week after the press reported that it had not been invited to an April 24 G-20 finance ministers' meeting in Washington on the margins of the IMF/World Bank spring meetings. Economy/Finance Minister and Second Vice President Elena Salgado told reporters in Washington that Spain would seek formal G-20 membership, citing Spain's economic statistics, support from G-20 members, and excellent relations with the United States. When asked about not having been invited to the April 24 ministerial, she said, "Spain would've liked to be invited, but I'm sure we'll be

in New York" for the September G-20 summit. She added that the GOS also sought to attend the G-20 May vice-ministers, and July ministers, meetings. Salgado said she had explained to Treasury Secretary Geithner in a fifteen-minute meeting the importance of Spanish participation in the New York summit. She said Geithner had not promised her anything but understood her arguments and would take them into consideration. Salgado and President Zapatero made this a key issue in their meetings during the week, with Salgado picking up supportive statements from Brazil,s finance minister (who had initially said that the U.S. had acted correctly in not inviting Spain to the ministerial) and Mexico,s finance minister, and Zapatero gaining public support from French President Sarkozy and EC President Durao Barroso. (El Pais and ABC, 4/27; Europa Press, 4/29; El Pais, 4/30)

GOS, Companies Address Electricity Tariff Deficit

4.(U) The Council of Ministers approved on April 30 the issuance of guarantees that will allow electric utilities to securitize and sell on financial markets up to ten billion euros of the debt owed them by the GOS. Since the early part of the decade, the GOS has accumulated some 16 billion euros in this "electricity tariff deficit" debt, which covers the difference between firms' costs and the prices they are allowed to charge consumers. In another key aspect of a deal worked out between the GOS and the companies, the GOS will allow companies to increase prices by about 5% each year until prices match costs. The GOS will also assume certain costs related to electricity supply in the Balearic and Canary Islands and the enclaves of Ceuta and Melilla. In return, the companies will not raise prices for four years for five million households that either have low consumption, are retirees with low pensions, contain no employed members,

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or are large families. The companies also will assume the costs of nuclear waste management. It is not clear what sort of discount the companies will have to accept to sell the debt, but industry association representatives expressed general satisfaction with the deal. (El Confidencial, 4/30; El Pais, 5/1)
CHACON